



**HARRY GWALA DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

GENERAL INFORMATION

MEMBERS OF THE COUNCIL

M Ndobe	Mayor
NH Duma	Deputy Mayor
TN Jojozi	Speaker
BP Nzimande	Member of the Executive Committee
N Mavuka	Member of the Executive Committee
LG Seja	Member of the Executive Committee
WB Dlamini	Member
SS Mavuma	Member
NW Dladla	Member
TG Soni	Member
V Xotongo	Member
BL Marncce	Member
B Caluza	Member
TC Dlamini	Member
ZC Khumalo	Member
S Nkala	Member
S Magaqa	Member
SN Madziba	Member
BZ Magaqa	Member
SV Zulu	Member
P Shange	Member
VW Zaza	Member
ZR Tshazi	Member
BC Mncwabe	Member
SJ Phakathi	Member

MUNICIPAL MANAGER

Mrs AN Dlamini

CHIEF FINANCIAL OFFICER

Mr M Mkatu

GRADING OF LOCAL AUTHORITY

Grade 4

AUDITORS

Auditor-General South Africa
Chartered Accountants (S.A.)

BANKERS

First National Bank

PHYSICAL ADDRESS

40 Main Street
Ixopo
3276

POSTAL ADDRESS

Private Bag X501
Ixopo
3276

LEGAL FORM OF ENTITY

District Municipality

TELEPHONE NUMBER

039 - 834 8700

FAX NUMBER

039 - 834 2258

Harry Gwala District Municipality

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out in pages 4 to 60 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 34 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mrs AN Dlamini
Municipal Manager

31 August 2017

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	3	179,844	191,663
Receivables from non-exchange transactions	4	4,610,451	2,995,815
VAT receivable	5	16,948,938	18,504,086
Consumer debtors	6	28,642,624	25,219,196
Cash and cash equivalents	7	24,272,551	5,818,976
		74,654,408	52,729,736
Non-Current Assets			
Property, plant and equipment	8	1,812,792,709	1,672,336,415
Intangible assets	9	427,783	643,359
Investment in entity	10	100	100
		1,813,220,592	1,672,979,874
Total Assets		1,887,875,000	1,725,709,610
Liabilities			
Current Liabilities			
Borrowings	11	5,792,884	5,462,675
Finance lease obligation	12	6,059,905	2,062,078
Payables from exchange transactions	13	132,124,508	208,713,340
Trade and other payables from non-exchange transactions	14	235	873,929
Consumer deposits	15	1,441,387	1,345,978
Unspent conditional grants and receipts	16	53,521,925	6,676,908
Provisions	17	567,617	599,421
		199,508,461	225,734,329
Non-Current Liabilities			
Borrowings	11	12,353,357	15,683,478
Finance lease obligation	12	13,990,256	1,547,823
Provisions	17	20,947,488	19,938,185
		47,291,101	37,169,486
Total Liabilities		246,799,562	262,903,815
Net Assets		1,641,075,438	1,462,805,795
Accumulated surplus		1,641,075,438	1,462,805,795

* See Note 46

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	79,838,824	42,926,545
Interest on outstanding debtors		16,394,536	8,663,846
Other income	19	2,130,035	2,188,758
Interest received - Investments	20	5,281,409	3,070,961
Total revenue from exchange transactions		103,644,804	56,850,110
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	564,162,755	532,133,173
Total revenue	22	667,807,559	588,983,283
Expenditure			
Bulk purchases	23	8,564,893	8,576,718
Community participation	24	3,149,701	4,570,360
Contracted services	25	55,529,753	85,882,941
Contribution to bad debt provision	26	75,064,990	25,567,149
Depreciation and amortisation	27	47,591,970	40,583,311
Employee related costs	28	135,817,505	125,030,438
Finance costs	29	4,312,671	2,883,661
General Expenses	30	72,834,112	92,378,003
Grants and subsidies paid	31	17,333,333	16,096,020
Impairment loss/ Reversal of impairments	35	3,876,195	83,340
Operating grant expenditure	32	35,236,772	27,836,733
Remuneration of councillors	33	5,451,994	6,037,608
Repairs and maintenance	34	24,733,047	26,938,721
Total expenditure		489,496,936	462,465,003
Operating surplus		178,310,623	126,518,280
Loss on disposal of assets and liabilities	36	(40,983)	(1,529,100)
Surplus for the year		178,269,640	124,989,180

* See Note 46

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2015	1,337,816,615	1,337,816,615
Changes in net assets		
Surplus for the year	124,989,180	124,989,180
Total changes	124,989,180	124,989,180
Opening balance as previously reported	1,471,019,137	1,471,019,137
Adjustments		
Prior year adjustments	(8,213,339)	(8,213,339)
Restated* Balance at 01 July 2016 as restated*	1,462,805,798	1,462,805,798
Changes in net assets		
Surplus for the year	178,269,640	178,269,640
Total changes	178,269,640	178,269,640
Balance at 30 June 2017	1,641,075,438	1,641,075,438
Note(s)		

* See Note 46

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		18,272,160	13,767,097
Grants		610,134,070	531,530,158
Interest income		5,281,409	3,070,961
		<u>633,687,639</u>	<u>548,368,216</u>
Payments			
Employee costs		(139,233,353)	(126,608,742)
Suppliers		(293,378,522)	(192,800,072)
Finance costs		(4,312,671)	(2,883,661)
		<u>(436,924,546)</u>	<u>(322,292,475)</u>
Net cash flows from operating activities	37	196,763,093	226,075,741
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(177,139,352)	(242,358,293)
Proceeds on disposal of property plant and equipment		2,031,750	-
Net cash flows from investing activities		(175,107,602)	(242,358,293)
Cash flows from financing activities			
Repayment of borrowings	11	(2,999,912)	(803,065)
Repayment of financial liabilities	12	(202,004)	(2,966,717)
Net cash flows from financing activities		(3,201,916)	(3,769,782)
Net increase/(decrease) in cash and cash equivalents		18,453,575	(20,052,334)
Cash and cash equivalents at the beginning of the year		5,818,976	25,871,310
Cash and cash equivalents at the end of the year	7	24,272,551	5,818,976

* See Note 46

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

APPROPRIATION STATEMENT

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorise d expenditur e	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2017											
Financial Performance											
Service charges	60,553,354	(8,298,846)	52,254,508	-		52,254,508	79,838,824		27,584,316	153 %	132 %
Investment revenue	3,500,000	2,000,000	5,500,000	-		5,500,000	5,281,409		(218,591)	96 %	151 %
Transfers recognised - operational	277,631,675	23,230,575	300,862,250	-		300,862,250	295,505,582		(5,356,668)	98 %	106 %
Other own revenue	9,109,252	8,105,281	17,214,533	-		17,214,533	18,524,571		1,310,038	108 %	203 %
Total revenue (excluding capital transfers and contributions)	350,794,281	25,037,010	375,831,291	-		375,831,291	399,150,386		23,319,095	106 %	114 %
Employee costs	(125,313,141)	(8,284,785)	(133,597,926)	-	-	(133,597,926)	(135,817,505)	(2,219,579)	(2,219,579)	102 %	108 %
Remuneration of councillors	(7,906,204)	-	(7,906,204)	-	-	(7,906,204)	(5,451,994)	-	2,454,210	69 %	69 %
Debt impairment	(25,393,852)	-	(25,393,852)			(25,393,852)	(75,064,990)	(49,671,138)	(49,671,138)	296 %	296 %
Depreciation and asset impairment	(31,874,428)	(10,659,264)	(42,533,692)			(42,533,692)	(51,468,165)	(8,934,473)	(8,934,473)	121 %	161 %
Finance charges	(1,925,613)	(84,048)	(2,009,661)	-	-	(2,009,661)	(4,312,671)	(2,303,010)	(2,303,010)	215 %	224 %
Materials and bulk purchases	(10,709,409)	-	(10,709,409)	-	-	(10,709,409)	(8,564,893)	-	2,144,516	80 %	80 %
Contracted services	(44,922,825)	16,848,277	(28,074,548)	-	-	(28,074,548)	(55,529,753)	(27,455,205)	(27,455,205)	198 %	124 %
Transfers and grants	(20,000,000)	2,666,667	(17,333,333)	-	-	(17,333,333)	(17,333,333)	-	-	100 %	87 %
Other expenditure	(114,358,320)	(55,647,246)	(170,005,566)	-	-	(170,005,566)	(135,953,632)	-	34,051,934	80 %	119 %
Total expenditure	(382,403,792)	(55,160,399)	(437,564,191)	-	-	(437,564,191)	(489,496,936)	(90,583,405)	(51,932,745)	112 %	128 %
Surplus/(Deficit)	(31,609,511)	(30,123,389)	(61,732,900)	-		(61,732,900)	(90,346,550)		(28,613,650)	146 %	286 %

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	335,772,325	(26,671,575)	309,100,750	-		309,100,750	268,657,173		(40,443,577)	87 %	80 %
Surplus (Deficit) after capital transfers and contributions	304,162,814	(56,794,964)	247,367,850	-		247,367,850	178,310,623		(69,057,227)	72 %	59 %
Surplus/(Deficit) for the year	304,162,814	(56,794,964)	247,367,850	-		247,367,850	178,310,623		(69,057,227)	72 %	59 %
Capital expenditure and funds sources											
Sources of capital funds											
Transfers recognised - capital	167,886,163	-	167,886,163	-		167,886,163	-		(167,886,163)	- %	- %
Internally generated funds	6,141,000	-	6,141,000	-		6,141,000	-		(6,141,000)	- %	- %
Total sources of capital funds	174,027,163	-	174,027,163	-		174,027,163	-		(174,027,163)	- %	- %

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	164,632,252	-	164,632,252	-		164,632,252	196,763,093		32,130,841	120 %	120 %
Net cash from (used) investing	(155,471,323)	-	(155,471,323)	-		(155,471,323)	(175,107,602)		(19,636,279)	113 %	113 %
Net cash from (used) financing	(1,410,967)	-	(1,410,967)	-		(1,410,967)	(3,201,916)		(1,790,949)	227 %	227 %
Net increase/(decrease) in cash and cash equivalents	7,749,962	-	7,749,962	-		7,749,962	18,453,575		10,703,613	238 %	238 %
Cash and cash equivalents at the beginning of the year	5,818,976	-	5,818,976	-		5,818,976	5,818,976		-	100 %	100 %
Cash and cash equivalents at year end	13,568,938	-	13,568,938	-		13,568,938	24,272,551		(10,703,613)	179 %	179 %

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Appropriation Statement

Figures in Rand

Reported unauthorise d expenditur e	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
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VARIANCE EXPLANATIONS

- 1.Service charges -Increased actuals due to increased demand and improved revenue management initiatives.
- 2.Interest investment - Higher interest earned on positive bank balances.
- 3.Other revenue - Actual performace higher due to lower projected debtors book
- 4.Government grants and subsidies - Variance within limits.
- 5.Employee related costs - Staff increases.
- 6.Remuneration of councillors - Over budgeting for Councillors allowance due to late determination receipt.
- 7.Depreciation and asset impairments - Additional assets procured through a new finance lease entered into with Afrirent.
- 8.Finance costs - Excess due to a new lease agreement entered into with Afrirent which was classified as a finance lease.
- 9.Material and bulk purchases - Lower than projected bulk water consumption due to drought.
- 10.Transfers and grants - Budget equal actual.
- 11.Other expenditures - Reduction due to reclassification of actual expenditure from general expenditure vote to contracted services.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

ACCOUNTING POLICIES

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

1.3 CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Revenue Recognition

Accounting Policy on Revenue from Exchange Transactions and Accounting Policy on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. In particular when services are rendered, and whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgment by management..

ACCOUNTING POLICIES

1.3 CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

Impairment of Financial Assets

Accounting Policy on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies on property, plant and equipment and intangible assets, the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

Impairment: Write down of PPE

Significant estimates and judgments are made relating to PPE impairment tests.

Defined Benefit Plan Liabilities

As described in Accounting Policy on employee benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19: Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes to the Annual Financial Statements.

Multi-employer defined benefit funds are accounted for as defined contribution plan.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

ACCOUNTING POLICIES

1.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	
• Office		30 years
Transport Assets	Straight line	
• Motor vehicles		7 years
• Trailers and accessories		10 years
• Trucks		10 years
Furniture and office equipment	Straight line	
• Office equipment (including fax machines)		7 years
• Office furniture		10 years
• Paintings, sculptures, ornaments (home and office)		10 years

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

ACCOUNTING POLICIES

1.4 PROPERTY, PLANT AND EQUIPMENT (continued)

Computer Equipment	Straight line	
• Computer hardware including operating systems		5 years
• Networks		10 years
• Computer software		5 years
Dams/structure	Straight line	
• Concrete		100 years
• Earth		50 years
River	Straight line	
• Structure - Weir		50 years
• Borehole Establishment		30 years
Pump Stations	Straight line	
• Structure - buildings		55 years
• Structure - Clarifiers		55 years
• Structure - Filters		55 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports		15 years
Perimeter protection	Straight line	
• Palisade - Concrete		25 years
• Palisade - Steel / Razor wire / Weld mesh		15 years
Reservoirs	Straight line	
• Structure - Concrete		50 years
• Structure - Galaxy		30 years
• Structure - Steel Tank		30 years
• Structure - Jojo		15 years
• Electrical		20 years
• Mechanical		15 years
Underground	Straight line	
• Chambers		30 years
• Manholes		30 years
Water purification works	Straight line	
• Structure		55 years
• Ponds		55 years
• Electrical		20 years
• Mechanical		15 years
Spring protection	Straight line	
• Spring		20 years
• Jojo tank		15 years
• Reticulation		40 years
• Standpipes		20 years
Sewerage pump stations	Straight line	
• Structure - Buildings		55 years
• Structure - Reactors		55 years
• Structure - Drying beds		55 years
• Structure - Clarifiers chambers		35 years
• Structure - Maturation Ponds		35 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports, ect.		15 years
• Rising mains		40 years
• Gravity mains		40 years
Other machinery and equipment	Straight line	
• Audiovisual equipment		10 years
• Building air conditioning systems		5 years
• Domestic equipment		5 years
• Kitchen appliances		10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

ACCOUNTING POLICIES

1.4 PROPERTY, PLANT AND EQUIPMENT (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 INTANGIBLE ASSETS

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

ACCOUNTING POLICIES

1.6 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Cash and cash equivalents include cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables..

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Short-term Investment Deposits
Bank Balances and Cash
Long-term Receivables
Consumer Debtors
Other Debtors
Investments in Fixed Deposits

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Long-term Liabilities
Trade and other payables
Bank Overdraft
Short-term loans

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

ACCOUNTING POLICIES

1.6 FINANCIAL INSTRUMENTS (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

An allowance for impairment based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable and are recognized in surplus or deficit for the year:

An allowance for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. Changes in the carrying amount of the allowance for impairment are recognized in surplus or deficit for the year.

Derecognition

Financial assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to nonrecoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

1.7 TAX

VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the payments basis.

ACCOUNTING POLICIES

1.8 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 INVENTORIES

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 IMPAIRMENT OF CASH-GENERATING ASSETS

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

ACCOUNTING POLICIES

1.10 IMPAIRMENT OF CASH-GENERATING ASSETS (continued)

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.11 EMPLOYEE BENEFITS

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The municipality treats its provision for leave pay as an accrual.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

ACCOUNTING POLICIES

1.11 EMPLOYEE BENEFITS (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The KSN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Provident, Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The liability is the aggregate of the present value of the defined obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

ACCOUNTING POLICIES

1.11 EMPLOYEE BENEFITS (continued)

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

ACCOUNTING POLICIES

1.12 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the financial statements.

1.13 COMMITMENTS

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

ACCOUNTING POLICIES

1.14 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Service Charges

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff:

Finance Income

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straightline basis over the term of the lease agreement, where such lease periods span over more than one financial year.

1.15 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

ACCOUNTING POLICIES

1.15 REVENUE FROM NON-EXCHANGE TRANSACTIONS (continued)

Public contributions

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Services in-kind

Services in-kind are not recognised.

1.16 INVESTMENT INCOME

Investment income is recognised on a time-proportion basis using the effective interest method. Investment income comprises of interest received on investments.

1.17 BORROWING COSTS

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 COMPARATIVE INFORMATION

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

1.19 UNAUTHORISED EXPENDITURE

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

ACCOUNTING POLICIES

1.21 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.23 EVENTS AFTER REPORTING DATE

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.24 GOVERNMENT GRANTS AND RECEIPTS

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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2. New standards and interpretations

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
3. INVENTORIES		
Opening balance	191,663	262,552
Water reduction	(11,819)	(70,889)
	179,844	191,663

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Unauthorised expenditure	5,979	5,979
Debtor - Kokstad deposits	105,753	105,753
Other debtors	1,779,631	164,995
Cyclone construction - Farmers market	2,000,000	2,000,000
SARS - debtors/salaries	181,259	181,259
ACB/debtors	424,247	424,247
Councillors laptops	94,045	94,045
Councillors bursary	19,537	19,537
	4,610,451	2,995,815

Included in the balance for other debtors is an amount of R 1 312 797.31 which was fraudulently paid to suppliers. Harry Gwala District Municipality instituted a claim against these suppliers to pay back the amounts. The matter was reported to the South African Police Services.

5. VAT RECEIVABLE

VAT reconciliation	(35,265,083)	15,116,421
Year end creditors VAT reclaimable	70,343,690	18,762,097
VAT on consumer accruals	(18,129,669)	(15,374,432)
	16,948,938	18,504,086

VAT is payable on a receipt basis. Only once payment is received from debtors is VAT paid over to SARS.

6. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Gross balances

Rates	2,862	270,941
Water	89,537,584	74,339,713
Sewerage	41,061,522	35,583,501
Interest	34,395,926	19,663,361
Value added taxation	18,249,386	15,374,432
Debtors direct deposits	(55,520)	(72,668)
	183,191,760	145,159,280

Less: Allowance for impairment

Rates	(2,862)	(270,941)
Water	(71,374,542)	(57,972,162)
Sewerage	(37,858,907)	(32,220,655)
Interest	(30,012,399)	(16,853,742)
Value added taxation	(15,300,426)	(12,622,584)
	(154,549,136)	(119,940,084)

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
6. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)		
Net balance		
Water	18,163,042	16,367,551
Sewerage	3,202,615	3,362,846
Interest	4,383,527	2,809,619
Value added taxation	2,948,960	2,751,848
Debtors direct deposits	(55,520)	(72,668)
	28,642,624	25,219,196
Rates		
> 365 days	2,862	270,941
Water and Sewerage		
Current (0 -30 days)	11,000,669	5,405,855
31 - 60 days	4,902,934	1,779,726
61 - 90 days	3,551,127	1,826,139
>91 days	129,403,967	114,718,811
	148,858,697	123,730,531
Reconciliation of allowance for impairment		
Balance at the beginning of the year	(119,940,084)	(98,047,806)
Contributions to allowance	(75,064,990)	(25,567,149)
Debt impairment written off against allowance	40,455,938	3,674,871
	(154,549,136)	(119,940,084)

The debtors direct deposits is an amount of debtors received via the bank account at year end but not yet captured to reduce the the respective individual debtors balance.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	300	300
Bank balances	1,597,841	299,557
Short-term deposits	22,674,410	5,519,119
	24,272,551	5,818,976

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand				2017	2016	
7. CASH AND CASH EQUIVALENTS (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
FNB Ixopo branch Account Number 62022648169	1,597,841	299,557	72,517	1,597,841	299,557	72,517
FNB Call Account - 62032587331	13,504,348	2,099	485,210	13,504,348	2,099	485,210
FNB Call Account - 62095523281	5,870,388	231,610	7,131,803	5,870,388	231,610	7,131,803
FNB Call Account - 62138538692	1,000	47,173	1,145	1,000	47,173	1,145
FNB Call Account - 62398395204	1,000	9,922	415,126	1,000	9,922	415,126
FNB Call Account - 62434145331	5,076	2,735	3,045	5,076	2,735	3,045
FNB Call Account - 62434147072	2,769	11,748	3,977	2,769	11,748	3,977
FNB Call Account - 62434151239	1,005	5,243	6,172,847	1,005	5,243	6,172,847
FNB Call Account - 62414264797	3,134	8,996	9,022	3,134	8,996	9,022
Investec BANK - Call account - 50006688425	3,285,691	5,199,592	11,576,318	3,285,691	5,199,592	11,576,318
Total	<u>24,272,252</u>	<u>5,818,675</u>	<u>25,871,010</u>	<u>24,272,252</u>	<u>5,818,675</u>	<u>25,871,010</u>

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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8. PROPERTY, PLANT AND EQUIPMENT

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	17,080,597	-	17,080,597	17,080,597	-	17,080,597
Buildings	31,372,420	(7,449,927)	23,922,493	31,169,837	(6,497,306)	24,672,531
Plant and machinery	2,620,590	(2,140,946)	479,644	2,645,589	(2,021,475)	624,114
Furniture and fixtures	5,074,312	(4,084,462)	989,850	5,160,714	(3,778,977)	1,381,737
Motor vehicles	8,787,204	(5,066,652)	3,720,552	12,603,949	(6,841,122)	5,762,827
Infrastructure	1,275,437,822	(355,867,319)	919,570,503	1,165,297,216	(313,812,288)	851,484,928
Community	5,188,302	(1,626,865)	3,561,437	5,188,302	(1,502,124)	3,686,178
Other assets	6,468,460	(4,276,256)	2,192,204	6,578,641	(4,366,402)	2,212,239
Work in progress	823,618,666	-	823,618,666	758,881,684	-	758,881,684
Finance lease assets	27,328,167	(9,671,404)	17,656,763	14,496,484	(7,946,904)	6,549,580
Total	2,202,976,540	(390,183,831)	1,812,792,709	2,019,103,013	(346,766,598)	1,672,336,415

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 30 June 2017

	Opening balance	Additions	Disposals	Transfers from WIP to PPE	Depreciation	Impairment loss	Total
Land	17,080,597	-	-	-	-	-	17,080,597
Buildings	24,672,531	202,583	-	-	(952,621)	-	23,922,493
Plant and machinery	624,114	-	-	-	(144,470)	-	479,644
Furniture and fixtures	1,381,737	216,496	(32,823)	-	(575,560)	-	989,850
Motor vehicles	5,762,827	-	(638,913)	-	(1,403,362)	-	3,720,552
Infrastructure	851,484,928	-	(712,975)	111,165,466	(38,490,721)	(3,876,195)	919,570,503
Community	3,686,178	-	-	-	(124,741)	-	3,561,437
Other assets	2,212,239	817,825	(68,999)	-	(768,861)	-	2,192,204
Work in progress	758,881,684	175,902,448	-	(111,165,466)	-	-	823,618,666
Finance leases - Assets	6,549,580	16,642,264	(619,023)	-	(4,916,058)	-	17,656,763
	1,672,336,415	193,781,616	(2,072,733)	-	(47,376,394)	(3,876,195)	1,812,792,709

Reconciliation of property, plant and equipment - 30 June 2016

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	17,080,597	-	-	-	-	17,080,597
Buildings	25,619,525	-	-	(946,994)	-	24,672,531
Plant and machinery	2,172,910	-	(1,039,058)	(509,738)	-	624,114
Furniture and fixtures	1,384,806	535,593	-	(538,662)	-	1,381,737
Motor vehicles	7,346,799	-	-	(1,583,972)	-	5,762,827
Infrastructure	885,065,439	-	-	(33,497,171)	(83,340)	851,484,928
Community	3,810,919	-	-	(124,741)	-	3,686,178
Other assets	2,964,384	132,770	-	(884,915)	-	2,212,239
Work in progress	517,137,830	241,743,854	-	-	-	758,881,684
Finance lease assets	8,997,162	173,180	(490,042)	(2,130,720)	-	6,549,580
	1,471,580,371	242,585,397	(1,529,100)	(40,216,913)	(83,340)	1,672,336,415

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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8. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of Work-in-Progress 2017

	Infrastructure Assets	Intangible Assets	Total
Opening balance	757,960,632	921,053	758,881,685
Additions/capital expenditure	175,902,448	-	175,902,448
Transferred to completed items	(111,165,466)	-	(111,165,466)
	822,697,614	921,053	823,618,667

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. INTANGIBLE ASSETS

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,682,665	(2,254,882)	427,783	2,682,665	(2,039,306)	643,359

Reconciliation of intangible assets - 30 June 2017

	Opening balance	Amortisation	Total
Computer software	643,359	(215,576)	427,783

Reconciliation of intangible assets - 30 June 2016

	Opening balance	Amortisation	Total
Computer software	1,009,761	(366,402)	643,359

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
10. INVESTMENT IN ENTITY		
Residual interest at cost		
Unlisted shares	100	100
100 Ordinary shares @ R1 per share in Harry Gwala Development Agency (Pty) Ltd		
Non-current assets		
Residual interest at cost	100	100
11. BORROWINGS		
At amortised cost		
ABSA	18,146,241	21,146,153
The loan bears a nominal fixed interest rate of 11.59 % compounded bi-annually		
The loan is redeemable in twenty equal installments bi-annually in arrears on 31 May and 31 November each year until 31 June 2021 .		
Non-current liabilities		
At amortised cost	12,353,357	15,683,478
Current liabilities		
At amortised cost	5,792,884	5,462,675
12. FINANCE LEASE OBLIGATION		
Minimum lease payments due		
- within one year	9,973,545	2,601,176
- in second to fifth year inclusive	16,142,143	2,361,042
Present value of minimum lease payments	26,115,688	4,962,218
Present value of minimum lease payments due		
- within one year	6,059,905	2,062,078
- in second to fifth year inclusive	13,990,256	1,547,823
	20,050,161	3,609,901
Non-current portion	13,990,256	1,547,823
Current portion	6,059,905	2,062,078
	20,050,161	3,609,901
13. PAYABLES FROM EXCHANGE TRANSACTIONS		
Accounts payable	76,727,680	155,695,092
Provision for leave pay	10,631,622	9,572,975
Retention	36,614,603	36,211,325
Debtors with credit balances	4,441,657	2,955,170
Other creditors	241,160	4,092
Salary intergration	3,467,786	4,274,686
	132,124,508	208,713,340

The fair value of trade and other payables approximates their carrying amounts.

Debtors with credit amounts are accounts receivables who have overpaid thier amounts and have have been reclassified to creditors.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
14. TRADE AND OTHER PAYABLES FROM NON-EXCHANGE TRANSACTIONS		
Municipal Systems Improvement Grant	-	10,269
Financial Management Grant	-	2,365
Energy Efficiency Demand Management Grant	-	861,060
Neighbourhood development grant	235	235
	235	873,929
15. CONSUMER DEPOSITS		
Water	1,441,387	1,345,978
16. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Accredited Councillors Training Grant	62,803	62,803
Development Bank of South Africa	406,480	406,480
Development Planning Shared Services Grant	4,879,982	4,879,982
District Growth Summit COGTA	31,301	31,301
Energy Efficiency Demand Management Grant	4,809,200	-
Gijima Grant	235,810	235,810
Government Experts Grant	445,014	445,014
Local Govt. Sector Education Training Authority	-	172,099
Massification - COGTA	36,307	36,307
Municipal Water Infrastructure Grant	15,261,555	-
Public Transport Grant	66,587	66,587
Regional Bulk Infrastructure Grant	26,942,062	-
Rural Transportation Service Infrastructure Grant	4,299	-
Signage Grant - COGTA	98,112	98,112
Sihleza Maize Production Project (COGTA)	242,413	242,413
	53,521,925	6,676,908

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
17. PROVISIONS		
Non-current liabilities	20,947,488	19,938,185
Current liabilities	567,617	599,421
	21,515,105	20,537,606

The balance of R21 515 105 (2016 : R20 537 606) consists of post-retirement health care benefit liability of R16 962 824 (2016 : R16 172 855) and Long service awards liability of R4 552 281 (2016 : R4 364 751) as detailed below:

RETIREMENT BENEFIT LIABILITY

Post-retirement Health Care Benefit Liability

Balance at beginning of year	16,172,855	13,313,118
Contributions to Provision	836,421	2,906,189
Benefits paid	(46,452)	(46,452)
Balance at end of year	16,962,824	16,172,855
Less current portion	49,293	46,452
Non-current portion	16,913,531	16,126,403

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the post-employment Medical Aid Benefit Plan are made up as follows:

In-service Members (Employees)	203	210
Continuation Members (Retirees, widowers and orphans)	1	1
Total Members	204	211

The liability in respect of past service has been estimated as follows:

In-service Members	16,516,860	15,700,487
Continuation Members	445,965	472,369
Total Liability	16,962,825	16,172,856

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Samwumed

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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17. PROVISIONS (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	10.13 %	9.49 %
Health Care Cost inflation Rate	8.41 %	8.50 %
Net Effective Discount Rate	1.59 %	0.91 %
Expected Retirement Age - Females	55	55
Expected Retirement Age - Males	60	60

Movements in the present value of the Defined Benefit Obligations were as follows:

Balance at the beginning of the year:	16,172,856	13,313,118
Current service costs	1,580,289	1,459,896
Interest cost	1,532,106	1,237,725
Benefits paid	(46,452)	(46,452)
Actuarial losses	(2,275,974)	208,569
Present Value of Fund Obligation at the end of the year	16,962,825	16,172,856

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	1,580,289	1,459,896
Interest cost	1,532,106	1,237,725
Actuarial losses	(2,275,974)	208,569
Total Post-retirement Benefit included in Employee Related cost	836,421	2,906,190

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made. The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease in the assumed average retirement age; and
- (v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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17. PROVISIONS (continued)

The following table summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
Central Assumptions	-	16.517	0.446	16.963	- %
Health care inflation	1%	17.652	0.446	18.098	7 %
	-1%	14.936	0.445	15.381	-15 %
Post-retirement mortality	- 1 yr	16.992	0.462	17.454	13 %
Average retirement age	- 1 yr	18.237	0.446	18.683	7 %
Continuation of membership at retirement	-10%	13.822	0.446	14.268	-16 %

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer. The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 7% higher than that shown.

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2017

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	1,580,300	1,532,100	3,112,400	- %
Health care inflation	1%	1,726,700	1,665,000	3,391,700	9 %
	-1%	1,373,900	1,359,600	2,733,500	-12 %
Post-retirement mortality	- 1 yr	1,629,400	1,582,300	3,211,700	3 %
Average retirement age	- 1 yr	1,630,700	1,614,700	3,245,400	4 %
Continuation of membership at retirement	-10%	1,315,700	1,281,600	2,597,300	-17 %

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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17. PROVISIONS (continued)

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2018-

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	1,483,600	1,716,700	3,200,300	- %
Health care inflation	1%	1,586,900	1,831,700	3,418,600	7 %
	-1%	1,324,300	1,556,500	2,880,800	-10 %
Post-retirement mortality	- 1 yr	1,523,900	1,766,500	3,290,400	3 %
Average retirement age	- 1 yr	1,541,000	1,891,000	3,432,000	7 %
Continuation of membership at retirement	-10%	1,240,800	1,443,600	2,684,400	-16 %

Long service awards liability

Balance at beginning of year	4,364,751	3,718,352
Contributions to Provision	740,499	960,101
Benefits paid	(552,969)	(313,702)
Balance at end of year	4,552,281	4,364,751
Less current portion	518,324	552,969
Non-current portion	4,033,957	3,811,782

The municipality operate an unfunded defined benefit plan for all its employees. Under the plan a Long-service Award is payable after 10 years thereafter to employees. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	8.45 %	8.57 %
Salary Cost inflation Rate	6.28 %	7.23 %
Net Effective Discount Rate	2.05 %	1.25 %
Expected Retirement Age - Females	55	55
Expected Retirement Age - Males	60	60

Movements in the present value of the Defined Benefit Obligations were as follows:

Balance at the beginning of the year:	4,364,751	3,718,352
Current service costs	539,556	484,083
Interest cost	350,987	288,602
Benefits paid	(552,969)	(313,702)
Actuarial losses	(150,044)	187,416
Present Value of Fund Obligation at the end of the year	4,552,281	4,364,751

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
17. PROVISIONS (continued)		
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	539,556	484,083
Interest cost	350,987	288,602
Actuarial losses	(150,044)	187,416
Total Post-retirement Benefit included in Employee Related cost	740,499	960,101

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:

- (i) The general salary inflation rate assumption;
- (ii) The discount rate assumption;
- (iii) The average retirement age of employees; and
- (iv) Assumed rates of withdrawal of employees from service.

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from service.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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17. PROVISIONS (continued)

The following table summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	% change
Central Assumptions	-	4.552	- %
General salary inflation	1%	4.841	6 %
	-1%	4.289	-6 %
Average retirement age	+2 yr	4.074	-11 %
	- 2 yr	4.926	8 %
Withdrawal rate	-50%	5.776	27 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2017

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	539,600	351,000	890,600	- %
General salary inflation	1%	584,100	375,600	959,700	8 %
	-1%	499,500	328,600	828,100	-14 %
Average retirement age	+2 yr	487,500	310,100	797,600	-4 %
	- 2 yr	583,100	385,600	968,700	21 %
Withdrawal rate	-50%	746,100	450,600	1,196,700	24 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2018-

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	504,900	363,400	868,300	- %
General salary inflation	1%	544,400	387,800	932,200	7 %
	-1%	469,200	341,100	810,300	-13 %
Average retirement age	+2 yr	455,300	323,000	778,300	-4 %
	-2yr	544,300	393,600	937,900	21 %
Withdrawal rate	-50%	693,300	466,800	1,160,100	24 %

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
18. SERVICE CHARGES		
Sale of water	69,624,542	31,479,609
Sewerage and sanitation charges	10,214,282	11,446,936
	79,838,824	42,926,545
19. OTHER INCOME		
Clearance certificate	1,829	2,049
Conservancy tanks	74,346	133,230
Endowment fees	-	18,876
Insurance refunds	326,454	680,664
Onsite disposal - sanitation	16,134	55,467
Salary deductions	364,498	390,378
Sewer connection	19,145	37,538
Sundry Income	150	150
Tender documents	381,300	204,250
Vaccum tank - honeysucker	114,321	149,997
Water connection fees	33,697	54,703
Water sales - tankers	798,161	461,456
	2,130,035	2,188,758
20. INTEREST RECEIVED		
Interest revenue		
Interest on investments	5,281,409	3,070,961
21. GOVERNMENT GRANTS AND SUBSIDIES		
Operating grants		
Equitable Share	260,069,000	241,034,114
Expanded Public Works Programme	3,364,000	3,466,000
Rural Household Infrastructure Grant	-	4,500,000
Municipal Systems Improvement Grant	10,269	929,731
Financial Management Grant	1,252,365	1,247,635
Local Govt. Sector Education Training Authority	343,177	-
Municipal Infrastructure Grant Operating expenditure	12,911,693	7,441,804
Development Planning Shared Services	-	240,000
Rural Transportation Service Infrastructure Grant	2,090,701	2,040,000
Energy Efficiency Demand Management Grant	4,051,860	6,138,940
Drought Relief	-	14,102,906
Municipal Water Infrastructure Grant	11,412,517	-
	295,505,582	281,141,130
Capital grants		
Regional Bulk Infrastructure Grant	21,057,938	15,149,847
Municipal Infrastructure Grant	178,155,307	192,342,196
Municipal Water Infrastructure Grant	59,443,928	43,500,000
Drought Relief	10,000,000	-
	268,657,173	250,992,043
	564,162,755	532,133,173

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
21. GOVERNMENT GRANTS AND SUBSIDIES (continued)		
Municipal Infrastructure Grant		
Current-year receipts	191,067,000	199,784,000
Conditions met - transferred to revenue	(191,067,000)	(199,784,000)
	-	-
Drought Relief Grant		
Current-year receipts	10,000,000	14,102,906
Conditions met - transferred to revenue	(10,000,000)	(14,102,906)
	-	-
Municipal Systems Improvement Grant		
Current-year receipts	-	940,000
Conditions met - transferred to revenue	(10,269)	(929,731)
Adjustment to payables from non - exchange	10,269	(10,269)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
Public Transport Grant		
Balance unspent at beginning of year	66,587	66,587
Conditions still to be met - remain liabilities (see note 16).		
Development Bank of South Africa		
Balance unspent at beginning of year	406,480	406,480
Conditions still to be met - remain liabilities (see note 16).		
Financial Management Grant		
Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(1,252,365)	(1,247,635)
Adjustment to payables from non - exchange	2,365	(2,365)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
Municipal Water Infrastructure Grant - DWA		
Current-year receipts	86,118,000	43,500,000
Conditions met - transferred to revenue	(70,856,445)	(43,500,000)
	15,261,555	-
Accredited Councillors Training		
Balance unspent at beginning of year	62,803	62,803
Conditions still to be met - remain liabilities (see note 16).		

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
21. GOVERNMENT GRANTS AND SUBSIDIES (continued)		
Rural Transport Service & Infrastructure Grant		
Balance unspent at beginning of year	-	195,134
Current-year receipts	2,095,000	2,040,000
Conditions met - transferred to revenue	(2,090,701)	(2,040,000)
Adjustment	-	(195,134)
	4,299	-
Conditions still to be met - remain liabilities (see note 16).		
Development Planning Shared Services		
Balance unspent at beginning of year	4,879,982	3,019,982
Current-year receipts	-	2,100,000
Conditions met - transferred to revenue	-	(240,000)
	4,879,982	4,879,982
Conditions still to be met - remain liabilities (see note 16).		
Local Government Sector Education Training Authority		
Balance unspent at beginning of year	172,099	-
Current-year receipts	171,078	172,099
Conditions met - transferred to revenue	(343,177)	-
	-	172,099
Conditions still to be met - remain liabilities (see note 16).		
Regional Bulk Infrastructure Grant		
Current-year receipts	48,000,000	15,149,847
Conditions met - transferred to revenue	(21,057,938)	(15,149,847)
	26,942,062	-
SIHLEZA Maize Production Project - COGTA		
Balance unspent at beginning of year	242,413	242,413
Conditions still to be met - remain liabilities (see note 16).		
Expanded Public Works Programme		
Current-year receipts	3,364,000	3,466,000
Conditions met - transferred to revenue	(3,364,000)	(3,466,000)
	-	-
Signage Grant - COGTA		
Balance unspent at beginning of year	98,112	98,112
Conditions still to be met - remain liabilities (see note 16).		

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
21. GOVERNMENT GRANTS AND SUBSIDIES (continued)		
Government Experts		
Balance unspent at beginning of year	445,014	445,014
Conditions still to be met - remain liabilities (see note 16).		
Gijima Grant		
Balance unspent at beginning of year	235,810	235,810
Conditions still to be met - remain liabilities (see note 16).		
Massification - COGTA		
Balance unspent at beginning of year	36,307	36,307
Conditions still to be met - remain liabilities (see note 16).		
Energy Efficiency Demand Side Management Grant		
Balance unspent at beginning of year	-	2,439,980
Current-year receipts	8,000,000	7,000,000
Conditions met - transferred to revenue	(4,051,860)	(6,138,940)
Adjustment	861,060	(2,439,980)
Adjustment to payables from non - exchange	-	(861,060)
	4,809,200	-
Conditions still to be met - remain liabilities (see note 16).		
District Growth Summit - COGTA		
Balance unspent at beginning of year	31,301	31,301
Conditions still to be met - remain liabilities (see note 16).		
Rural Household Infrastructure Grant		
Current-year receipts	-	4,500,000
Conditions met - transferred to revenue	-	(4,500,000)
	-	-
22. REVENUE		
Service charges	79,838,824	42,926,545
Interest on arrear accounts	16,394,536	8,663,846
Other income	2,130,035	2,188,758
Interest received - investment	5,281,409	3,070,961
Government grants & subsidies	564,162,755	532,133,173
	667,807,559	588,983,283

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
22. REVENUE (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	79,838,824	42,926,545
Interest received on arrear accounts	16,394,536	8,663,846
Other income	2,130,035	2,188,758
Interest received - investment	5,281,409	3,070,961
	103,644,804	56,850,110
The amount included in revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Government grants & subsidies	564,162,755	532,133,173
23. BULK PURCHASES		
Water	8,564,893	8,576,718
24. COMMUNITY PARTICIPATION		
Bursaries - Community	354,850	416,834
Ceremonial Activities	220,384	77,000
Cleaning Campaign	75,700	17,000
Conduct Greenest Municipality	193,435	311,540
Harry Gwala Community Radio	59,267	-
IDP Review	714,280	551,888
Mayoral Izimbizo	434,320	1,625,601
Mayoral Slots	199,190	549,737
Nyusi Volume	877,193	1,000,000
Press Conference and Media Briefings	21,082	20,760
	3,149,701	4,570,360

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
25. CONTRACTED SERVICES		
Annual Financial Statements	3,017,500	3,263,955
Assessment of Asset Register	3,740,291	3,772,481
Audit committee	506,329	488,828
Chemical Supply	2,841,838	3,641,527
Computer Licences and Financial Systems	913,135	1,156,686
Conferences and Services	2,126,543	710,886
E - Venus System Maintenance	1,253,754	866,960
Gardening Service	117,400	63,230
Ixopo Precinct Plan	-	105,257
Legal Fees	1,211,861	887,469
MFMA Capacity Building	48,185	200,756
Office Cleaning	345,578	399,243
PMS/SDBIP Review	53,040	391,240
Protective Clothing and Uniforms	1,220,313	1,066,579
Rain Water Harvesting	10,140,108	17,559,910
Rental of Office Equipment	316,899	534,313
Repairs and maintenance in Ingwe	-	2,610,104
Repairs and maintenance in Kokstad	340,530	2,604,067
Repairs and maintenance in Kwasani	-	525,965
Repairs and maintenance in Ubuhlebezwe	65,770	5,273,714
Repairs and maintenance in Umzimkhulu	456,180	8,327,594
Security Services	16,566,781	12,960,180
Sport Development	3,522,411	4,812,572
Systems and Admin Support	3,844,144	4,815,703
Training	188,131	1,559,980
Upgrade And Maintenance	-	229,078
VAT Consultant	-	1,159,723
Water Meters Audit and Collection Costs	304,600	1,176,886
Water Quality Monitoring	1,397,273	2,229,243
	54,538,594	83,394,129
26. CONTRIBUTION TO BAD DEBT PROVISION		
Contributions to provision	75,064,990	25,567,149
27. DEPRECIATION AND AMORTISATION		
Property, plant and equipment	47,376,394	40,216,910
Intangible assets	215,576	366,402
	47,591,970	40,583,312

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
28. EMPLOYEE RELATED COSTS		
Basic	84,041,233	78,368,690
Health care retirement benefit	789,969	2,859,737
Housing benefits and allowances	1,361,020	1,299,430
Leave pay provision charge	1,547,381	1,600,678
Long-service awards	187,530	646,399
Experimental learning	-	180,576
Overtime payments	15,055,738	12,964,155
SDL	1,195,814	1,090,924
Social contribution - SALGBC	31,205	29,754
Social contributions - medical aid	5,909,959	5,306,170
Social contributions - pension fund	10,810,820	9,965,133
Travel, motor car, accommodation, subsistence and other allowances	14,272,370	10,128,055
UIF	614,466	590,737
	135,817,505	125,030,438

Remuneration of Municipal Manager

Annual Remuneration	961,598	915,324
Travel, motor car, accommodation, subsistence and other allowances	402,296	378,759
Cellphone Allowance	17,694	16,692
Contributions - UIF	1,785	1,784
Contributions - Medical Aid	43,417	43,417
Contributions - SALGBC	90	87
Skills	13,718	13,034
	1,440,598	1,369,097

Remuneration of Chief Financial Officer

Annual Remuneration	882,350	844,735
Bonus	77,532	64,869
Acting Allowance	-	17,655
Travel, motor car, accommodation, subsistence and other allowances	327,420	312,250
Cellphone Allowance	17,694	16,692
Contributions - UIF	1,785	1,785
Contributions - Medical Aid	34,556	30,938
Contributions - SALGBC	90	87
Skills	13,081	12,572
	1,354,508	1,301,583

Remuneration of Community Services Manager

Annual Remuneration	754,011	355,665
Travel, motor car, accommodation, subsistence and other allowances	243,305	114,767
Cellphone Allowance	16,536	7,800
Contributions - UIF	1,785	892
Contributions - SALGBC	61	-
Contributions - Skills	9,833	4,638
	1,025,531	483,762

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
28. EMPLOYEE RELATED COSTS (continued)		
Remuneration of Corporate Services Manager		
Annual Remuneration	839,334	802,569
Bonus	73,386	62,222
Travel, motor car, accommodation, subsistence and other allowances	271,077	258,518
Cellphone Allowance	17,694	16,692
Contributions - UIF	1,785	1,785
Contributions - Medical Aid	32,432	28,183
Contributions - SALGBC	90	87
Contributions - Skills	11,977	11,337
	1,247,775	1,181,393
Remuneration of Water Services Manager		
Annual Remuneration	812,087	777,320
Travel, motor car, accommodation, subsistence and other allowances	419,098	399,680
Cellphone Allowance	17,692	16,692
Contributions - UIF	1,785	1,785
Contributions - SALGBC	90	87
Contributions - Skills	11,965	11,437
	1,262,717	1,207,001
Remuneration of Engineering Manager - Infrastructure		
Annual Remuneration	1,024,449	979,929
Bonus	80,538	83,867
Travel, motor car, accommodation, subsistence and other allowances	127,200	109,000
Cellphone Allowance	17,692	16,692
Contributions - UIF	1,785	1,785
Contributions - SALGBC	90	87
Contributions - Skills	12,244	11,677
	1,263,998	1,203,037
29. FINANCE COSTS		
External borrowings	4,312,671	2,883,661

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
30. GENERAL EXPENSES		
Advertising	645,843	483,541
Annual reports	28,000	5,504
Auditors remuneration	2,254,853	2,076,759
Bank charges	123,407	109,484
Books and publications	15,546	255,634
Bursaries	217,376	390,120
Chemicals supply	1,072,853	-
Cultural activities	189,900	252,300
Departmental electricity consumption	268,852	333,989
Disability awareness	86,164	298,237
Disaster management	421,449	894,504
Employee wellness programme	67,533	454,055
Engineering and mentorship skills	-	164,607
Financial assistance and school campaign	36,325	311,715
Fire beaters	49,350	89,280
Fuel and oil	5,135,202	5,725,077
Functions	503,219	1,533,392
Golden games	218,093	208,940
HIV and AIDS Sukumasakhe	234,064	980,972
Harry Gwala spatial development framework	689,509	85,868
Harry Gwala district marathon	1,045,375	1,018,926
ICT hub and strategic support	943,338	482,218
Implementation of internal audit plan	1,093	203,784
Installation of water meters	-	2,057,403
Insurance	790,833	676,773
Legal fees	(9,355)	-
MFMA capacity building programme	109,809	55,472
Marketing & branding	212,350	302,957
Media tour	199,750	399,075
Membership fees	31,239	49,078
Other expenses	1,226,578	880,361
Penalties	-	224,342
Planned projects as per priority	1,189,095	1,065,068
Postage	186,169	212,726
Printing and stationery	1,113,777	874,627
Protective clothing	-	(111,491)
Publication of newsletter	463,500	989,375
Rental offices	1,343,147	749,828
Rural horse riding games	301,010	511,188
SCM capacity building	194	-
SALGA fees	32,000	1,291,556
Sewer intervention	7,139,686	15,903,069
Other expenses	769,268	-
Sports development	12,500	-
Staff replacement and reallocation costs	-	20,675
Staff welfare	76,700	218,345
System and administration support	-	504,251
Technical support	811,418	71,244
Telephone and fax	4,079,845	4,625,260
Tracker	243,312	238,202
Training	419,789	184,211
Travel, accommodation and subsistence allowances	1,589,488	2,176,973
Umngeni farm detailed plan	-	26,180
Vehicle rental	3,645,362	251,826
Vehicles licences	186,146	155,157
Videography	36,000	93,290
Water conservation health and hygiene	-	715,507
Water expenses	17,183,348	24,631,666
Water intervention	14,836,743	15,364,624

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
30. GENERAL EXPENSES (continued)		
Website management	40,267	48,971
Women's day celebration	326,800	199,900
Youth council	-	28,750
Youth development empowerment plan	-	332,658
	72,834,112	92,378,003
31. GRANTS AND SUBSIDIES PAID		
Harry Gwala Development Agency	17,333,333	16,096,020
32. OPERATING GRANTS EXPENDITURE		
EPWP - Salaries	2,860,639	1,491,566
Energy efficiency Project management and consultation fees	7,772,860	5,385,035
Eradication of Sanitation Backlogs in Ubuhlebezwe	1,778,552	2,522,082
Eradication of Sanitation Backlogs in Umzimkhulu	878,594	8,066,635
FMG - Systems Administration and Support	399,371	617,685
FMG - Training	5,299	4,000
FMG - Travel and accommodation	78,843	73,151
WSIG - Sanitation	10,000,000	-
Ground water borehole drilling - Drought relief	854,456	-
Ingwe Household Sanitation Project	7,736,502	6,560,731
MSIG - Systems Administration and Support	-	568,898
MSIG - Training	-	58,817
MSIG - Travel and accommodation	-	191,429
PMU - Travel and accommodation	570,246	67,565
Raw water purchases	115,852	289,349
Rural roads site supervision and consulting fees	2,185,558	1,699,790
Salaries - Development Planning Shared Services	-	240,000
	35,236,772	27,836,733
33. REMUNERATION OF COUNCILLORS		
Salaries	4,243,615	5,382,257
Travelling allowance	769,903	332,678
Cellphone allowance	224,516	273,212
Meeting allowance	213,960	49,461
	5,451,994	6,037,608
34. REPAIRS AND MAINTENANCE		
Fire Extinguishers	40,793	-
Mechanical and electrical	8,223,307	9,017,354
Maintenance of Ingwe Schemes	606,328	3,225,852
Maintenance of Kokstad Schemes	6,946,952	1,569,855
Maintenance of Kwasani Schemes	1,687,472	65,047
Maintenance of Ubuhlebezwe Schemes	3,311,724	5,584,205
Maintenance of Umzimkhulu Schemes	2,005,623	5,834,580
Office Building	1,256,181	1,508,200
Server Room Maintenance	503,825	25,173
Vehicles	150,842	108,455
	24,733,047	26,938,721

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
35. IMPAIRMENT OF ASSETS		
Impairments		
Property, plant and equipment	3,876,195	83,340
36. LOSS ON DISPOSAL OF ASSETS		
Loss on disposal of property plant and equipment	2,072,733	1,612,440
Proceeds on disposal of property plant and equipment	(2,031,750)	-
	40,983	1,612,440
37. CASH GENERATED FROM OPERATIONS		
Surplus	178,269,640	124,989,180
Adjustments for:		
Depreciation and amortisation	47,591,970	40,583,311
Loss on disposal of assets and liabilities	40,983	1,529,100
Impairment deficit	3,876,195	83,340
Debt impairment	75,064,990	25,567,149
Movements in provisions	977,499	3,506,136
Leave pay provision	1,058,647	953,168
Changes in working capital:		
Inventories	11,819	70,889
Receivables from exchange transactions	(78,488,418)	(25,082,215)
Other receivables from non-exchange transactions	(1,614,636)	2,080,255
Payables from exchange transactions	(77,647,476)	68,517,064
VAT	1,555,148	(17,080,981)
Trade and other payables from non-exchange transactions	(873,694)	873,694
Unspent conditional grants and receipts	46,845,017	(603,015)
Consumer deposits	95,409	88,666
	196,763,093	226,075,741
38. COMMITMENTS		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure	190,616,410	199,527,221
Total capital commitments		
Already contracted for but not provided for	190,616,410	199,527,221

Harry Gwala District Municipality

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39. CONTINGENCIES		
Harry Gwala District Municipality had the following litigations and claims as at 30 June 2017.		
Unitrade 1047 CC T/A Isidingo Security Services	-	25,000,000
Bhungane Built Environment	2,750,000	3,000,000
Fleetmatics vehicle management	-	80,000
Matatiele Local Municipality	2,941,249	2,941,249
Mdlebeni Trading (Pty) Ltd	1,400,000	1,500,000
Sektor Consulting and engineers	572,567	400,000
T.G Mazongolo	-	100,000
V.K Distributors	-	5,000
Mahlaselondwe Trading	4,200,000	-
Mondli Lukhozi	30,000	-
Shemuntu Trading CC	47,850	-
	11,941,666	33,026,249

- Bhungane Built Environment

Action for professional services rendered was instituted against the Municipality. Municipality instituted a counter-claim for plaintiff to deliver supporting documents. Pleadings have closed and we await receipt of case flow management directives

- Mdlebeni Trading (Pty) Ltd

Action for damages arising from breach of contract was instituted against the Municipality. Pleadings have closed and we are in the process of exchanging pre-trial notices.

- Sektor Consulting CC

Action has been instituted against the Municipality. The matter is being defended.

- Shemuntu Trading CC

Action has been instituted against the Municipality. The matter is being defended.

- Mahlaselondwe Trading

Action instituted against the Municipality for professional services rendered. Matter currently pending as we await a condonation application to be filed for the late delivery of the Plaintiff's Replying Affidavit in the application to condone its failure to comply with section 3(2)(a) of Act 40 of 2002.

- Mondli Lukhozi

Action has been instituted against the Municipality. The matter is currently being defended.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

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Figures in Rand	2017	2016
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40. RISK MANAGEMENT

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

Call deposits	22,674,410	5,519,119
Bank balances and cash	1,597,841	299,557
ABSA loan	18,146,240	21,146,152
	<u>42,418,491</u>	<u>26,964,828</u>

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in the market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, without taking account of the value of any collateral obtained:

Financial assets exposed to credit risk at year end were as follows:

Financial instrument		
Cash and cash equivalents	24,272,251	5,818,676
Trade and other receivables	33,253,075	28,215,011
	<u>57,525,326</u>	<u>34,033,687</u>

41. UNAUTHORISED EXPENDITURE

Opening balance	266,147,013	192,940,848
Add current year expenditure	90,583,405	73,206,165
Approved by council or condoned	(266,147,013)	-
	<u>90,583,405</u>	<u>266,147,013</u>

42. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	514,239	87,365
Add current year expenditure	2,934,230	426,874
Less: Amounts condoned/ written off by council	(87,365)	-
	<u>3,361,104</u>	<u>514,239</u>

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

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Figures in Rand	2017	2016
43. IRREGULAR EXPENDITURE		
Opening balance	240,674,407	143,360,811
Add: Irregular Expenditure - current year	97,149,419	97,313,596
Less: Amounts condoned	(143,360,811)	-
	194,463,015	240,674,407

44. RELATED PARTIES

Controlled Entities

The Harry Gwala District Municipality controls the following reporting entity:

Harry Gwala Development Agency:

Harry Gwala District Municipality has 100% shareholding in Harry Gwala Development Agency.

Harry Gwala Development Agency is a registered (PTY) Ltd company in terms of the Company Act 71 of 2008.

Related Party Transactions

During the financial year Harry Gwala District Municipality transferred R17 333 333.34 (2016: R16 096 020) to Harry Gwala Development Agency.

Key Management Personnel

The key management personnel of Harry Gwala Development Agency are:

The Chief Executive Officer Dr M A Mdletye

The Chief Financial Officer Mrs N R Shabalala

45. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organised local government

Current year subscription / fee	32,000	1,291,556
Amount paid - current year	(32,000)	(1,291,556)
	-	-

Material losses Incurred

Water losses	25,526,124	22,403,116
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The water losses of 49.63 % (2015-16 : 50.47%) is calculated on the total consumption of 9 525 267.88 kl (2016 : 8 966 620kl) purchased at an average price of R5.40 (2015-16 : R4.95) per kl. Total water stock losses amounts to 4 727 059.98 kl (2015-16 : 4 525 822kl)

Water losses were made up of technical losses of Rmillion (2015-16: R18.59 million) and non-technical losses of R million (2015-16: R3.77 million).

Audit fees

Current year subscription / fee	2,254,853	2,076,759
Amount paid - current year	(2,254,853)	(2,076,759)
	-	-

Harry Gwala District Municipality

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45. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

PAYE and UIF

Opening balance	1,647,481	-
Current year subscription / fee	23,045,711	18,981,337
Amount paid - current year	(21,151,764)	(17,333,856)
Amount paid - previous years	(1,647,481)	-
	1,893,947	1,647,481

Pension and Medical Aid Deductions

Opening balance	1,725,244	-
Current year subscription / fee	16,720,779	15,271,303
Amount paid - current year	(16,720,779)	(13,546,079)
Amount paid - previous years	(1,725,244)	-
	-	1,725,224

VAT

VAT receivable	16,948,938	18,504,086
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VAT output payables and VAT input receivables are shown in note 5.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Jojozi	577	2,019	2,596
30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Ngcobo C.M	184	895	1,079

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the District Municipal Council.

Section 36 deviations transferred to Irregular Expenditure.

During the 2016/17 there were deviations on the SCM Procedures when acquiring goods and services from suppliers.

Incident

Wise Security	5,294,323	-
Judy Magwaza Trading Enterprise	1,000,000	1,000,000
ION Consulting	1,221,225	941,726
	7,515,548	1,941,726

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2017

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46. PRIOR PERIOD ERRORS

The Municipality made the following adjustments to figures reported previously.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Payables from exchange transactions

Amount previously reported	-	200,500,001
Prior year invoices not recorded	-	8,230,109
Invoices duplicated in the prior year.	-	(16,770)
Restated payables from exchange transactions	-	208,713,340

Accumulated Surplus

Balance previously reported	-	1,471,019,137
Prior year invoices not recorded for water schemes electricity	-	(8,230,109)
Invoices duplicated in the prior year.	-	16,770
Restated Accumulated Surplus	-	1,462,805,798

47. CHANGE IN ESTIMATE

Property, plant and equipment

The useful life of leased vehicles from AVIS Car Rental was estimated in 2014 to be 7 years. In the current period management have revised their estimate to 4 years due to the fact lease agreement was not going to be extended. The effect of this revision has increased the depreciation charges for the current and future periods by R 314,679 and R2 240 389.19 respectively.